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CENTRAL AND SOUTH AMERICAN TRADE AS AFFECTED BY THE EUROPEAN WAR

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The commercial interdependence of modern nations became strikingly apparent when the first shock of the European war halted neutral commerce as abruptly as that of the belligerents. Although transportation and exchange were dislocated in every country of the globe, probably no other neutral nations were affected to so serious an extent as were the twenty Latin American republics to the south of us. Not only were their business relations with the United Kingdom, France, Germany, Austria and Belgium subjected to an abnormal strain, but their commerce with each other and with the United States was interrupted and is only now beginning to resume encouraging proportions.

The completion of the Panama Canal and propaganda in favor of closer relations with our sister republics are partially responsible for the fact that the American public has developed a tendency to view world trade in terms of Latin America, overlooking the fact that the total trade of the twenty republics with other nations and with each other is but 6 per cent of the total foreign trade of the world, and that the Dominion of Canada normally buys more from us than the whole of Latin America.

Educational Power of Varied Trade

Those who, by reason of their interest in the greater consuming markets, may view this attitude of the American public with disappointment, should realize, however, that the study of the many conditions governing this trade and the tariffs and laws to which it is subject is rapidly acquainting the general public with valuable knowledge concerning foreign trade policy. It is needless to look beyond our Latin American export trade for examples of the strength and weakness of our commercial intercourse with all nations.

In gauging the effect of the European war upon Central and

South American trade and its future development, it should be remembered that European investment has been the chief factor in the growth of these nations. Such financial assistance was essential to the development of their natural resources and the establishment of manufacturing industries.

European Investment

At the beginning of the European war, more than five billion dollars of British capital had been invested in Latin America; while investments of French capital were variously estimated at from four hundred million to one billion two hundred million dollars, and German investments at somewhat less. British investments were estimated to yield an average annual interest of over 5 per cent, or two hundred and fifty million dollars, more than two-thirds of the value of the United Kingdom's yearly imports of Latin American products. In other words, the Latin American natural products imported for the life and industry of the British Isles were largely paid for by earnings of British gold invested in securities of Latin American governments and in the shares of enterprises in those countries, such as railroads, steamship lines, plantations, mines, manufacturing industries, nitrate fields, etc. Moreover, this British investment ensured preference for British exports, as a railroad financed in Great Britain was usually equipped with British materials and British mines were operated with British machinery, etc.

German investment was accompanied by still greater financial influence, as the German industrial system contemplated the importation of raw materials, their fabrication into a much greater volume of products than Germany herself could consume necessitating a wide export market for the surplus. In accordance with the German policy, industry and finance were closely allied, various classes of manufacturers concentrated their resources, supported by the great German banks and upheld by a constructive governmental policy which molded diplomacy, education and national thought to the extension of Germany's influence in world trade, with the result that there was a steady advance in demand for German goods in Latin America.

Each great German financial group was represented in South America by banks which, in addition to conducting a general bank-

ing business for the commercial public, were indefatigable in their efforts to obtain a market for products of the mergers and coöperative foreign selling syndicates which the parent banks in Germany had helped to organize and finance.

Limited American Investment

This influence of financial Europe steadily gained in power in every republic from the Rio Grande to Cape Horn, but its effect was neutralized by American investment in such countries as Mexico and the chain of states extending to Panama and the West Indies. Large American holdings in mines and plantations, fruit trade investments, railroads, tramways, light and power plants and steamship lines, coupled with our greater familiarity with the markets, a fairly considerable American population, and the influence of travel and association, have combined to create an equal opportunity for American goods in the countries north of Panama and in the Caribbean.

Our exports to Central America normally consist more largely of highly finished manufactures than those to any other part of the world. Cuba is the only American country under whose tariff we enjoy a large advantage. To the ten Central American and Caribbean republics and to Venezuela, Colombia and Peru, we sold more merchandise last year than did all the rest of the world, which is sufficient proof of our ability to produce results when supported by helpful association and sound financial investment, in addition to our sound selling methods and high-quality products.

Further south, the influence in behalf of American export trade steadily diminishes, for the reason that our South American investments, except in mines in Peru, copper and iron-ore properties in Chile and packing plants in Argentina, are immaterial; so, also, is American population, while European immigration has been heavy. The importance to a nation of merchants residing in foreign countries cannot be overestimated. British and German merchants scattered throughout the world conducting business as importers of products of their native lands are vital factors in British and German oversea trade, while an American merchant resident in a foreign land is an exception.

Effect of War

Even before the outbreak of the war the effect on Latin American markets of curtailed European investment, beginning with the second Balkan war, was marked. Dependent as new enterprises were upon the selling of securities on the British and Continental bourses, prosperity in South America had long been dependent on the European money market, and all industry and most government finance showed distress a full year before the great European war began.

When hostilities were declared, the situation became the worst in their history, and moratoria were promptly declared in practically every country. Pending loan negotiations were halted, new construction was suspended, sterling exchange, the almost universal currency of Latin American trade, soared to unprecedented heights, steamship communication was interrupted, and confidence was completely impaired. The demoralizing effect of the crisis upon the domestic, as well as the foreign business of the United States, is not yet forgotten; in Latin America it was even more severe. Trade between the United States and South America came almost to a halt and, even after British control of the sea restored transportation, the credit situation and the difficulties of collections prevented the resumption of normal business.

Purchasing Power Curtailed

Those whose enthusiasm led them to believe that, with Germany out of the race for trade, the United States could immediately gain the export trade formerly enjoyed by that country, failed to consider the fact that Latin American purchasing power had shrunk by reason of the curtailment of British investment and the loss of the German, Austrian and other customary European markets for their products. More thoughtful exporters realized that the mechanism of commerce must be restored before present business could be taken care of, leaving aside the question of a greater future trade. The disadvantage of the former custom of liquidating transactions in our trade with Latin America at London in sterling bills of exchange was made apparent, and its excessive expense bred in exporters and importers the desire for the establishment of dollar exchange and direct settlements between this country and southern

markets. In the furtherance of this desire, the federal reserve banking law is timely. Its authorization of the federal reserve banks to deal in acceptances representing transactions in the export and import trade created in each of the great export centers a discount market for this paper, with the result that bills drawn on oversea customers find ready sale when accepted by banks belonging to the federal reserve system, and the extension of credits has been greatly facilitated.

Immediately the war assumed its present gigantic proportions, it was plain that the purchasing power of Latin America had dwindled to the value of its exportable products, and much depended, therefore, upon the state of crops, such as wheat in Argentina, coffee in Brazil, and elsewhere.

Situation Improving

Fortunately, these crops were large and foodstuffs commanded unusually high prices in the European market, with the result that, within the last three months, trade has quickened, confidence has been partially restored, and business is beginning to be conducted "as usual," except that all new construction is at a standstill and no extensive development is contemplated until the end of the war.

A notable effect of the war in our commercial relations with Latin America has been the increasing reexportation of characteristic Central and South American products. New York and other ports of the United States are now important distributing points for international commerce, as shown by the fact that exports of foreign merchandise for the eight months ending February, 1915, were valued at \$33,166,512, as against \$20,541,138 for the same period in the previous year. This gain was especially notable in the case of cacao, the reexports of which increased more than fivefold, reaching, for the eight months ending with February, a total value of \$2,835,591. The reexports of coffee leaped from \$968,530 to \$4,482,368. This was largely due to the closure of Hamburg and conditions prevailing in other European ports, formerly the center of the world-distributing trade. In comparison with these old-world centers, New York became the greatest open port. By reason of restrictions placed upon the export of rubber by the United Kingdom, to prevent its being used by the enemy, the importance of American ports for

the distribution of India rubber greatly increased, the value of reexports growing about 80 per cent.

Trade Balance Adverse to United States

During the eight months ending February 28, 1915, our exports to all Latin America and the West Indies were valued at \$159,742,-863, as compared with \$212,227,558 for the corresponding period ending February 28, 1914, a decrease of 25 per cent, while our world exports during the same period decreased $3\frac{1}{2}$ per cent. Our imports from the same countries, during the same period of the present fiscal year, amounted to \$316,374,763 against \$289,318,891, an increase of 9 per cent, although our world imports decreased 13 per cent. This comparison shows a trade balance of \$156,631,900 in favor of Latin America and the West Indies, which will adequately answer the demand of those who are urging us to buy more freely from Latin America, but even in normal times, the balance is in our neighbors' favor. Under the provisions of the federal reserve law, we can reasonably look for largely increased sales of American products.

The reasons for this decrease in our exports were the practical suspension of commerce during the first few weeks of war and the acute depression which followed. This decrease was noticeable in shipments of all construction materials, such as iron and steel manufactures, lumber and cement, agricultural machinery and equipment, automobiles, railway cars, locomotives, sewing-machines and other highly finished manufactures, while exports of actual necessities occasionally increased, by reason of the lack of European competition. For instance, exports of coal, which, before the war, except to Central America, were not heavy, trebled to Argentina, and greatly increased to Brazil, while shipments of American paper, because of the need of replenishing stocks and the elimination of German competition, also grew in volume, while inquiries began to pour in for numerous small lines, thus increasing the diversification of our export trade. At the close of the war, however, we will find it necessary to exert every effort to maintain this newly-won trade against the determined competition of Europe.

The increase in value of imports from Latin America is largely due to higher prices of various products, combined with the fact that trade routes have been changed and New York has become more

active as a distributing point, as shown in the case of cacao, some importers of the Ecuadorian, Brazilian and Dominican product expecting to see it become the greatest distributing point in the world. The use of cocoa and chocolate in the ration of the modern army proved the salvation of Latin American cacao growers.

The demand of the European belligerents for foodstuffs and supplies has saved the situation both in Latin America and the United States. The development of Latin America cannot proceed, however, without foreign capital. Citizens of the United Kingdom are forbidden, during the war, to invest in foreign enterprises, which eliminates England, France, Germany or Belgium, leaving the United States as the only great nation whose trade balance is increasing and whose gold is accumulating.

Source of Future Investment

That American capital is educated to foreign investment is proven by the fact that its holdings in the Dominion of Canada are nearly seven hundred million dollars, exclusive of agriculture, and half a billion dollars in Mexico, Central America, Cuba, Haiti, Santo Domingo, Chile and Peru. Since the beginning of the war, fifteen million dollars of short term Argentine treasury notes have been taken in the United States, one of the conditions of the issue being that the proceeds should remain in the United States as a credit against the Argentine purchases of American merchandise. This unusual condition illustrates the advantage of making loans to countries which can become large purchasers of our products.

British investors are retaining their Latin American properties, which will prove more valuable than ever after the war, in view of their freedom from the heavy taxes which war imposes upon investments in the United Kingdom. How important a part British capital will play in the financing of Latin America after the war remains to be seen, but the consensus of financial opinion seems to be that interest rates will materially increase, and the amount of this increase, as compared with the price of United States loans, will doubtless determine the question of who is to be the chief investor.

Relation of Investment to Export Trade

Of greater importance than the interest rate is the creation of a greater export market for American manufactures through railway and industrial loans. By reason of European investment, the area into which we can expect to send American exports is restricted. For instance, in view of the fact that railways promoted by European capital are confining their purchases of materials to Europe, our only field for railway supplies and equipment has been the government railways. When the output of American factories is increased by foreign investment, the investment becomes in reality a domestic investment and its encouragement by the United States government should naturally be expected. Upon this attitude will depend largely the future of American business enterprise abroad. With governmental support and intelligent coöperation between investors much can be accomplished, although some hesitancy on the part of capital may be encountered, owing to the deterrent effect of the Mexican revolution. However, the awakened interest of the entire American business public in the possibilities of Latin American trade is a great assurance of future increase.

While the establishment of dollar exchange will not, perhaps, entirely replace confidence in sterling bills at the conclusion of war, a beginning has been made for American banking.

Excessive versus Adequate Credits

Although much is said in favor of conducting business in accordance with the desires and standards of our Latin American customers we should remember that this applies only to what is recognized by the world to be sound business practice. Arguments in favor of granting six, nine and twelve months' credit do not recognize the fact that extension of unusual credits was an important factor in the industrial depression preceding the war, Germany's eagerness for British trade having led many German firms to extend credits which deferred merchants' obligations several months beyond the time when they realized on the purchased goods. With this ready money at hand, the merchant frequently speculated in land, with the result that collapse of the land boom caused heavy losses and failure to pay at maturity of even these long credits.

British exporters frequently voluntarily suffered the loss of old and valued business in preference to extending excessive credits, and Americans with experience in Latin American trade are of the opinion that the limit of credit should be sufficient only to cover the time required by purchaser to realize on the goods bought, taking into consideration the harvesting and marketing of crops.